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SUBJECT: CYPRUS: 2008 INVESTMENT CLIMATE STATEMENT

REFS: (A) 07 STATE 158802, (B) 07 NICOSIA 0045

Per Ref A request, Post submits below the 2008 Investment Climate Statement (ICS) for Cyprus. Each section covers both the government-controlled area in the south and the non-recognized "area administered by Turkish Cypriots" in the north of the island. We will also e-mail a copy of this text to J. Nathaniel Hatcher and Ann Kambara, as requested.

BEGIN TEXT

INVESTMENT CLIMATE STATEMENT ON CYPRUS, 2008

Openness to Foreign Investment

Government-Controlled Area:

Cyprus, a full EU member since May 1, 2004, has a liberal climate for investments. The sectors of niche tourism, energy and shipping offer excellent potential for inward investment. At the same time, the Government of Cyprus offers incentives in the field of research and technology.

International companies may invest and establish business in Cyprus on equal terms with local investors in most sectors. Foreign investors can register a company directly with the Registrar of Companies, and are eligible to obtain any license, if needed, from the appropriate authority depending on the nature of investment.

On October 1, 2004, the GOC lifted most investment restrictions concerning non-EU residents, completing earlier reforms (introduced in January 2000) for EU investors. Specifically, the GOC has lifted most capital restrictions and limits on foreign equity participation or ownership, thereby granting national treatment to foreign investors. Non-EU investors (both natural and legal persons) may now invest freely in Cyprus in most sectors, either directly or indirectly (including all types of portfolio investment in the Cyprus Stock Exchange). The only exceptions concern primarily the acquisition of property and, to a lesser extent, ownership restrictions on investment in the sectors of

tertiary education, mass media, banking and construction (see "Right to Private Ownership and Establishment").

Under the new policy, there is no mandatory screening of foreign investment. Foreign investors can register a company directly at the Registrar of Companies through qualified accountants or lawyers, a procedure that is exactly the same for local residents. Similarly, foreign investors may now acquire shares in an existing Cypriot company directly, without earlier authorization by the Central Bank. They are expected, however, to inform the Registrar of Companies about any change in ownership status. Foreign investors are required to obtain all permits that may be necessary under Cypriot law to do business in Cyprus. For example, they may need to obtain a municipal permit to set up a kiosk or abide by prevailing health standards to own and operate a catering company, etc. Furthermore, non-EU residents wishing to take up employment in Cyprus must obtain work permits issued by the Migration Department.

In 2007, the GOC established the Cyprus Investment Promotion Agency (CIPA) tasked with attracting foreign investment, advising foreign investors, and providing assistance to them. The CIPA will operate as a private organization reporting to the Ministry of Commerce, Industry, and Tourism and will work in tandem with the Foreign Investors Service Centre, under the same ministry. The CIPA is not fully staffed yet and will be launched officially in 2008. Through these two organizations, Cypriot authorities offer expedited processing by other GOC departments for larger projects (over USD 2.2 million) in line with country-sustainable growth, e.g. benefiting Cyprus' economic development goals and objectives. For example, a proposed Cyprus-U.S. joint venture, involving the establishment of a health spa/residential estate project in the foothills of the Troodos mountains, received the first ever such expedited processing about a year ago. Additional information, including a PDF "Guide for Foreign Investors," and information on expedited treatment of investment applications can be obtained from the two organizations directly:

The Foreign Investors Service Centre  
Ministry of Commerce, Industry & Tourism  
13-15 Andreas Araouzou  
1421 Nicosia  
Cyprus  
Tel. +357-22-409433, 22409322, 22409328  
Fax: +357-22-409432, 22375541  
Email: onestopshop@mcit.gov.cy  
Website: www.investincyprus.gov.cy

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#### Area Administered by Turkish Cypriots:

Since 1974, the southern part of Cyprus has been under the control of the Government of the Republic of Cyprus, while the northern part has been administered by a Turkish Cypriot administration, which proclaimed itself the "Turkish Republic of Northern Cyprus" ("TRNC") and has not been recognized by any country except for Turkey. Turkish Cypriot authorities actively encourage foreign investment, giving preference to foreign investments facilitating the transfer of modern technology, know-how and new management technologies, as well as investment in export-oriented industries. There are no particular

restrictions for specific sectors, except for projects deemed threatening to "national security." Complications arising, however, from the lack of international recognition of the "TRNC" and the continuing non-resolution of the Cyprus problem, especially regarding property, should be taken into consideration by the foreign investor (see section on "Protection of Property Rights" for additional information.)

## Conversion and Transfer Policies

### Government-Controlled Area:

In recent years, Cyprus has progressively lifted restrictions on the transfer of funds in and out of the country pertaining to foreign investors. Currently, there are no restrictions on remittances for investment capital, earnings, loan repayments, lease payments or other business transactions.

## Expropriation and Compensation

The events of 1974 have resulted in a number of outstanding investment disputes involving U.S. persons. Resolution of these disputes prior to a settlement of the Cyprus problem seems unlikely.

### Government-Controlled Area:

In the government-controlled area, nationalization has never been government policy and it is not contemplated in the future. Private property is only expropriated for public purposes in a non-discriminatory manner and in accordance with established principles of international law. In cases where expropriation is necessary, due process is followed and there is transparency of purpose. Investors and lenders to expropriated entities receive compensation in the currency in which the investment is made. In the event of any delay in the payment of compensation, the Government is also liable for the payment of interest based on the prevailing 6-month LIBOR for the relevant currency.

For information pertaining to the risks associated with investing in Greek Cypriot property in the north or in Turkish Cypriot property in the government-controlled area, please see the section on "Protection of Property Rights."

### Area Administered by Turkish Cypriots:

The "TRNC constitution" guarantees the right of private property in the area administered by Turkish Cypriots and does not discriminate between citizens and aliens. Furthermore, Turkish Cypriot authorities state that nationalization has never been part of their policy and that they do not contemplate any such action in the future. However, Turkish Cypriot authorities do not grant any protection for Greek Cypriot properties in the north. (See section on "Protection of Property Rights.")

The 1974 events have resulted in a number of claims of U.S. persons in the area administered by Turkish Cypriots, even though U.S. interests were not specifically targeted. The most well-known case concerns a U.S. copper mining company that was forced to terminate its operations in 1974. The company's property and assets were confiscated in 1975 without compensation by military and civilian authorities representing Turkey and the Turkish Cypriot administration.

## Dispute Settlement

### Government-Controlled Area:

There have been no cases of investment disputes or outstanding expropriation/ nationalization cases in recent years. Effective means are available for enforcing property and contractual rights. Under the Arbitration Law of Cyprus, an arbitrator is appointed when the parties' attorneys cannot settle a dispute between the parties to an agreement. The court may enforce an arbitral award in the same way as a judgment. In 1979, Cyprus became a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and a foreign award may be enforced in Cyprus by an action in common law. Cyprus is also a signatory to the Convention on the Settlement of Disputes Between States and Nationals of Other States.

## Performance Requirements and Incentives

### Government-Controlled Area:

Cyprus offers many advantages to foreign investors, including a strategic geographical location, favorable business climate, low corporate and personal tax rates, stable macroeconomic environment, modern legal, banking, and financial system, excellent telecommunications and infrastructure, a highly-educated labor force, and widespread knowledge of English. These advantages have encouraged thousands of foreign investors to set up companies in Cyprus, structuring their investments through a holding company on the island or investing here directly. As a result, the number of annual company registrations continues to grow, particularly since EU accession in 2004.

A low level of taxation is one of Cyprus's major advantages. At 10 percent, Cyprus's corporate tax rate is currently the lowest among the EU's 27 countries. Cyprus's other tax advantages include:

- one of the EU's lowest top statutory personal income tax rate at 30%;
- extensive double tax treaties network with over 40 countries, enabling lower withholding tax rates on dividend or other income received from the subsidiaries abroad
- no withholding tax on dividend income received from subsidiary companies abroad under certain conditions;
- no withholding tax on dividends received from EU subsidiaries.

A full description of Cyprus's investment incentives can be downloaded from:

<http://www.investincyprus.gov.cy>

Cyprus does not have a rigid system of performance requirements for foreign investment across the board and has signed the WTO's Trade-Related Investment Measures (TRIMS) agreement. Applications by non-EU residents for investment in Cyprus are judged on their own merit.

### Area Administered by Turkish Cypriots:

The area administered by Turkish Cypriots offers generous incentives for investing on "state property." Specifically, after an initial screening, investments granted an Incentive Certificate may benefit from the leasing of "state-owned" land and buildings at very preferential rates.

However, prospective investors should be knowledgeable about the risks associated with the purchase, lease or use of property. The "TRNC Constitution" -- Article 159 (1) (b), May 7, 1985 Q defines "state property" as: "All

immovable properties, buildings and installations which were found abandoned on 13 February 1975 when the "Turkish Federated State of Cyprus" was proclaimed or which were considered by law as abandoned or ownerless after the above-mentioned date, or which should have been in the possession or control of the public even though their ownership had not yet been determined ... and ... situated within the boundaries of the "TRNC" on 15 November 1983 notwithstanding the fact that they are not so registered in the books of the Land Registry Office."

It must be stressed, though, that the Republic of Cyprus outright rejects the above definition and does not recognize title changes in the north since 1974. As stated under the "Protection of Property Rights" section of this report, potential investors should be cautious and obtain independent legal advice concerning purchasing or leasing property in the north.

The area administered by Turkish Cypriots also offers the following investment incentives:

-- Investment Allowance. The "TRNC State Planning Organization (SPO)" offers an investment allowance in the form of Incentive Certificates equivalent to: (a) 200 percent on the initial fixed capital investment for investments in Priority Development Regions, such as the regions of Guzelyurt (Morphou) and Karpaz (Karpasia) and (b) 100 percent on the initial fixed capital investment in other sectors.

-- Exemption from Custom Duties and Funds. Importation of machinery and equipment for an investment project are exempt from every kind of custom duty, in accordance with the Incentive Certificate. Regulations on importation of raw materials and semi-finished goods are specified by the "Prime Ministry" and subject to the approval of the "Council of Ministers."

-- Zero VAT Rate. Both imported and locally purchased machinery and equipment is subject to a zero VAT rate, in accordance with the Incentive Certificate.

-- Fund Credits. Long term and low rate investment credits are available from the Investment and Export Incentive Fund.

-- Exemption from Construction License Fee and Reduced Mortgage Fees. Investments granted an Investment Certificate are exempt from all kinds of construction license fees and taxes and also benefit from reduced stamp duty and mortgage fees.

-- Other Tax Allowances. (a) A 50 percent allowance if given on the Initial Investment Allowance. This rate can increase up to 100 percent for priority sectors and regions, with a "Council of Ministers" decision. (b) Annual wear and tear allowances for machinery and equipment (10 percent); motor vehicles (15-25 percent); industrial buildings and hotels (4 percent); shops and residences (3 percent), furniture and fixtures (10 percent). (c) Other tax allowances include a VAT exemption for exports of all goods and services and a 20 percent exemption from corporate tax for exports of goods and services.

A new QOne-stopQ investment office was created in late 2007 with the responsibility of approving all investment and providing incentives. Contact information:

QNorth Cyprus Investment Development AgencyQ  
Tel. 90 392 228 9378  
e-mail: ayse\_donmezer@yahoo.com

Right to Private Ownership and Establishment

Government-Controlled Area:

Aside from property acquisition issues, outlined in the next section, several other restrictions infringe on the foreign investor's right to private ownership and establishment in Cyprus. For example, existing Cypriot legislation distinguishes between investment in colleges and universities. Investment in universities, defined as institutions with no fewer than 1,000 students enrolled in a sufficiently diverse range of classes and curricula, is encouraged. Foreign (including non-EU) investors can set up or acquire a university in Cyprus or set up in Cyprus a campus of an existing university abroad by simply registering a company on the island and following a set of non-discriminative criteria. By contrast, non-EU investment in colleges is discouraged. Non-EU investors can set up or acquire a local college by registering a company in Cyprus or elsewhere in the EU provided that the company has EU-origin shareholders and directors. In other words, non-EU investors are not allowed to have any participation, whether as directors or shareholders, in the administration of local colleges.

Current Cypriot legislation also restricts non-EU ownership of local mass media companies to 5 percent or less for individual investors and 25 percent or less for all foreign investors in each individual media company.

Furthermore, under the Registration and Control of Contractors Laws of 2001 and 2004, the right to register as a constructor in Cyprus is reserved for citizens of EU member states. Non-EU entities are not allowed to own a majority stake in a local construction company. Non-EU physical persons or legal entities may bid on specific construction projects but only after obtaining a special license by the Council of Ministers.

Finally, there is a restriction, applying equally to Cypriot as well as foreign investors, regarding investment in the banking sector. The Central Bank's prior approval is necessary before any individual person or entity, whether Cypriot or foreign, can acquire over 9.99 percent of a bank incorporated in Cyprus (whether listed on the Cyprus Stock Exchange or not).

## Protection of Property Rights

### Government-Controlled Area:

The Acquisition of Real Estate (Aliens) Cap and the Amending Laws of 2003, in force since May 1, 2004, places important restrictions on the acquisition of real property in Cyprus by non-EU persons and entities. The same law also distinguishes between EU persons and entities that are permanent residents of Cyprus and those who are not, placing certain restrictions on the latter group, albeit, less severe than restrictions on non-EU persons and entities. Specifically, this law provides the following:

1. EU nationals permanently residing in the Republic of Cyprus, and EU registered legal entities with jurisdiction, central management or primary place of business in the Republic of Cyprus may acquire real estate (of any type or size) without prior approval by the District Administration Offices.

2. EU nationals not permanently residing in the Republic of Cyprus and EU registered legal entities with jurisdiction, central management or primary place of business in any EU member State other than Cyprus may acquire land (without any structures on it) of any size without prior approval by the District Administration Offices. However, if there is any building on this land, the approval of the District Administration Offices needs to be obtained. Approval is granted routinely for one holiday home (but not for multiple homes). This derogation from the EU acquis will expire on May 1, 2009.

After that time, all EU nationals and companies will be treated in the same manner, regardless of whether they are permanent residents of Cyprus or not.

13. Non-EU member State citizens, legal entities registered in non-EU countries, and EU registered legal entities controlled by non-EU citizens (as per the definition below), can acquire real estate subject to the approval of the relevant District Administration Offices. In case the real estate concerned exceeds two donums (one donum = 1338 square meters), approval may be granted only for residential purposes (not exceeding an area of three donums), professional or commercial premises, and industrial sectors deemed beneficial for the Cypriot economy and relate to the production of products or the utilization of new technology and/or technological know-how.

The definition of a legal entity controlled by non-EU citizens is as follows:

-- 50 percent or more of its board members are non-EU citizens;

-- 50 percent or more of its share capital belongs to non-EU citizens;

-- control belongs by 50 percent or more to non-EU citizens;

-- Either its Memorandum or Articles of Association provides authority to a non-EU citizen securing that the company's activities are conducted based on his/her will during the real estate acquisition period. In the case that the authority is provided to two or more persons, a legal entity is considered to be controlled by non-EU citizens if 50 percent or more of the people granted such authority are non-EU citizens.

Cypriot legislation limiting the acquisition of land in Cyprus by EU residents is not in accord with EU requirements. The EU granted Cyprus a temporary derogation from the EU *acquis communautaire* on this issue, lasting for five years after accession (i.e. until May 2009).

For additional information and application forms for the acquisition of property by non-EU residents, the various District Administration Offices can be contacted through the Ministry of Interior website:  
<http://www.moi.gov.cy/da>

The legal requirements and procedures for acquiring and disposing of property in Cyprus are complex but professional help by real estate agents and developers can ease the burden of dealing with the GOC bureaucracy. This procedure involves Central Bank verification that funds from abroad are to be used by non-EU residents to purchase real estate. It also involves final approval by the Council of Ministers, which is given routinely for holiday homes.

The Government's Department of Lands and Surveys prides itself in keeping meticulous records and in following internationally-accepted procedures (which have changed little since British colonial times). Non-residents are allowed to sell their property and transfer abroad the amount originally paid, plus interest or profits without restriction.

On the intellectual property front, Cyprus has a modern set of laws, which it continues to upgrade. Enforcement is typically quite diligent, although it can be improved further. The Adoption of the Copyright Law on January 1, 1994 and the subsequent adoption of the Patents Law on April 2, 1998 were important legal milestones in this context, helping Cyprus comply with its obligations under the WTO TRIPS agreement.

Property claims across the buffer zone constitute one of the thorniest aspects of the Cyprus problem. As a result, investors are well-advised to consider the risks associated with Greek Cypriot property in the north and Turkish Cypriot property in the government-controlled area. Several high-profile cases have already been brought before the European Court of Justice and other international bodies, while other cases are still pending.

The UK Foreign and Commonwealth Office website ([www.fco.gov.uk](http://www.fco.gov.uk)) notes:

"Property issues are closely linked to the political situation. There are a number of potential practical, financial and legal implications, particularly for those considering buying property in the north. These relate to the non-recognition of the "Turkish Republic of Northern Cyprus", the suspension of EU law in northern Cyprus, the possible consequences for property of a future settlement, and the many thousands of claims to ownership from people displaced in 1974. There is also a risk that purchasers would face legal proceedings in the courts of the Republic of Cyprus, as well as attempts to enforce judgements from these courts of the Republic of Cyprus elsewhere in the EU, including the UK.

Separately, potential purchasers should also ensure that they are fully aware of the specific rules imposed by the administration on foreigners purchasing property in the north including the requirement to obtain consent to the transfer of property.

On 20 October 2006 a criminal code amendment relating to property came into effect. Under the amendment, buying, selling, renting, promoting or mortgaging a property without the permission of the owner (the person whose ownership is registered with the Republic of Cyprus Land Registry, including Greek Cypriots displaced from northern Cyprus in 1974), is a criminal offence. This also applies to agreeing to sell, buy or rent a property without the owner's permission. The maximum prison sentence is 7 years. Furthermore, the amendment to the law states that any attempt to undertake such a

transaction is a criminal offence and could result in a prison sentence of up to 5 years. This law is not retrospective, so will not criminalise transactions that took place before 20 October 2006. Documents relating to the purchase of property in northern Cyprus will be presumed by the Cypriot authorities to relate to the illegal transfer of Greek Cypriot property and may be subject to confiscation when crossing the Green Line. Anyone in possession of these documents may be asked to make a statement to the Cypriot authorities and may face criminal proceedings under the 20 October 2006 amendment. The full implications of this legislation are not yet clear. Any enquiries about its scope should be made to the Cypriot representation in the UK."

The following GOC website provides additional information on the risks of investing in the northern part of Cyprus:

[http://www.mfa.gov.cy/mfa/properties/occupied\\_area\\_properties.nsf/index\\_en/index\\_en?OpenDocument](http://www.mfa.gov.cy/mfa/properties/occupied_area_properties.nsf/index_en/index_en?OpenDocument)

Similarly, there are politically-oriented restrictions to investing in Turkish Cypriot property in the government-controlled area of Cyprus. The Turkish Cypriot Property Management Service, established in 1991, administers properties of Turkish Cypriots who are not ordinarily residents of the government-controlled area. This service acts as the temporary custodian for such properties until termination of the abnormal political situation. The TCPMS is mandated to administer properties under its custodianship "in the manner most



beneficial for the owner." Most importantly, ownership of TC properties cannot change (unless for inheritance purposes) except in exceptional cases when this is beneficial for the owner or necessary for the public interest.

#### Area Administered by Turkish Cypriots:

Property remains one of the key outstanding issues that constitute the Cyprus problem.

The absence of a political settlement and the lack of international recognition for the "TRNC" pose an inherent risk for the foreign investor interested in buying or leasing property in north Cyprus. Potential investors should be cautious and obtain independent legal advice concerning purchasing or leasing property in the north. Unless the property in question was in Turkish Cypriot hands prior to 1974, it will be very unlikely that the title to the land will be free and unchallengeable. Property issues will be at the heart of any settlement of the Cyprus problem and will involve the return of property and/or compensation to those displaced in 1974. The Republic of Cyprus does not recognize title changes in the north since 1974. Estimates of the percentage of land in the north that belonged to Greek Cypriots pre-1974 run as high as 85 percent. Determining the history of land in the north can be difficult. Foreign buyers of land may also face legal challenges from those displaced in 1974 either in Republic of Cyprus courts or courts in their country of residence.

Expectations for a comprehensive settlement associated with the Annan Plan led to an unprecedented boom in the property market of north Cyprus in 2004. However, since then, property sales have deflated by at least 25 percent and construction activity has declined accordingly. There are reports of foreign buyers of property who have been unable to secure title to a property even after having made full payment under a purchase agreement. A group called the QHomebuyerQs Pressure GroupQ has formed to seek means to mediate disputes between property sellers and buyers in the north. Their website is:  
<http://www.hbpg-trnc.net>.

Intellectual property rights are not adequately protected in the area administered by Turkish Cypriots. Laws are inadequate and antiquated and enforcement sorely lacking.

#### Transparency of Regulatory System

##### Government-Controlled Area:

In the government-controlled area, existing procedures and regulations affecting business (including foreign investment regulations, outlined in section A.1.) are generally transparent and applied in practice without bias. In some cases, U.S. companies competing on government tenders have expressed concerns about lack of transparency and the appearance of bias in decisions made by the technical committees responsible for preparing specifications and reviewing tender submissions. The U.S. Embassy monitors these tenders closely to ensure a level playing field for U.S. businesses.

##### Area Administered by Turkish Cypriots:

The area administered by Turkish Cypriots has made strides in recent years in terms of adopting a more transparent regulatory system. However, the level of transparency still lags behind European or U.S. standards. A common complaint among businessmen in north Cyprus is that the court system is overloaded, resulting in long delays.

#### Efficient Capital Markets and Portfolio Investment

## Government-Controlled Area:

Cyprus has modern and efficient legal, banking and financial systems, ensuring optimum allocation of financial resources to product and factor markets. EU accession on May 1, 2004 was instrumental in establishing an efficient capital market in Cyprus, through the abolition of such restrictions as the interest rate ceiling in 2001, and exchange controls for residents.

Credit to foreign and local investors alike is allocated on market terms. The private sector has access to a variety of credit instruments, which has been enhanced through the successful operation of private venture capital firms. The banking sector is sound and well-supervised.

The Cyprus Stock Exchange (CSE), launched officially in 1996, has recovered completely from the boom-and-bust cycle of 1999-2001, recording impressive gains over the last three years and offering currently excellent potential for portfolio investment. After recording gains of 52 percent in 2005, the CSE index rose by an additional 128 percent in 2006, and 24 points in 2007, making it one of the EUQs top-performing stock exchanges. The CSE is currently the EUQs third-smallest stock exchange, ahead of Malta and Slovakia, with a capitalization of around USD 29.0 billion as of January 1, 2008.

Furthermore, the launch of a joint trading platform between the CSE and the Athens Stock Exchange (ASE) on October 30, 2006 signified the beginning of a new era in the turbulent 10-year history of the CSE. The platform now allows capital to move freely from one exchange to the other, even though both exchanges retain their autonomy and independence. The joint platform has increased the capital available to Cypriot firms and improved the CSEQs liquidity.

Foreign investors may acquire up to 100 percent of the share capital of Cypriot companies listed on the CSE with the notable exception of companies in the banking sector. The Central BankQs prior approval is necessary before any individual person or entity, whether Cypriot or foreign, can acquire over 9.99 percent of a bank incorporated in Cyprus (whether listed on the CSE or not).

On January 1, 2008, Cyprus, along with Malta, became the 14th and 15th states to join the Eurozone, adopting the Euro as their national currencies. The Eurozone now covers 320 million people out of the EU's total population of 495 million. For a small country like Cyprus, joining the Eurozone has many significant long-term economic benefits, including a higher degree of price stability, lower interest rates, reduction of currency conversion costs and exchange rate risk, and increased competition through greater price transparency.

The transition to the Euro has gone quite smoothly for Cyprus. The main concern was, and continues to be, keeping price increases in check during the transition. The final exchange rate was set at one Euro equals CP 0.585274. Cyprus will allow both the Euro and the Cyprus Pound to circulate on the island until the end of January 2008. Commercial banks will exchange Cyprus pound banknotes and coins free of charge until June 30, 2008. The Central Bank will exchange national coins free of charge until the end of 2009 and national banknotes until the end of 2017. Dual pricing in Cypriot pounds and Euros will continue to be mandatory until July 31, 2008. The following website offers additional information on the mechanics of Cyprus's adoption of the Euro:

<http://www.euro.cy>

Area Administered by Turkish Cypriots:

The financial system in the area administered by Turkish Cypriots is linked closely with that of Turkey. The New Turkish Lira (YTL) is the main currency in use although the Euro, U.S. dollar, British Sterling, and Cypriot Pounds are frequently used. The vast majority of borrowing comes from domestic sources and Turkey. There is no stock exchange in the area administered by Turkish Cypriots.

#### Political Violence

There have been no incidents of politically-motivated serious damage to foreign projects and or installations since 1974. However, it behooves the foreign investor who is interested in Cyprus to have at least a basic understanding of the existing political situation on the ground.

Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat directed from Greece. Since 1974, the southern part of the island has been under the control of the internationally recognized Government of the Republic of Cyprus. The northern part of the island is administered by a Turkish Cypriot administration. In 1983, that administration proclaimed itself the "Turkish Republic of Northern Cyprus" ("TRNC"). The "TRNC" is not recognized by the United States or by any other country except Turkey. The two parts are separated by a buffer zone patrolled by United Nations forces. A substantial number of Turkish troops remain on the island.

There has been no serious inter-communal violence since 1974, other than an isolated incident in 1996 resulting in the deaths of two Greek-Cypriot civilians during a demonstration in the buffer zone. The partial lifting of travel restrictions between the two parts of the island in April 2003 has allowed movement of persons -- almost 14 million crossings to date -- between the two parts of the island. In August 2004, new EU rules allowed goods produced in the north to be sold in the south provided they were produced or "substantially transformed" in the north. Shortly thereafter, the Turkish Cypriot "authorities" adopted a new regulation "mirroring" the EU rules and allowing certain goods produced in the south to be sold in the north. Nevertheless, trade between the two communities remains rather limited. For the period August 2004 to November 2007, north-to-south sales reached USD 13 million, while south-to-north sales reached only USD 2.9 million. Neither side permits finished goods produced outside of Cyprus to cross the Green Line.

A plan for the reunification of the island, drafted under the auspices of the UN and dubbed "the Annan Plan," was submitted to the two communities for approval in separate but simultaneous referenda on April 24, 2004. The plan was approved by the majority of Turkish Cypriots but rejected by the majority of Greek Cypriots.

On May 1, 2004, the Republic of Cyprus joined the European Union as a full member. The EU acquis communautaire has been temporarily suspended in the northern part of the island due to the unresolved political situation.

#### Corruption

##### Government-Controlled Area:

In the government-controlled area of Cyprus, corruption, both in the public and private sectors, constitutes a criminal offense. Furthermore, under Cyprus's Constitution, the Auditor General controls all disbursements and receipts and has the right to inspect

all accounts on behalf of the Republic. In his Annual Report, the Auditor General identifies specific instances of mismanagement or deviation from proper procedures in the civil service. Since 1991, Cyprus has also introduced the institution of the "Ombudsman," who oversees the acts or omissions of the administration.

Cyprus cooperates closely with EU and other international authorities on fighting corruption and providing mutual assistance in criminal investigations. Cyprus has signed the European Convention on Mutual Assistance on Criminal matters and is in the process of ratifying it. Cyprus also uses the foreign Tribunal Evidence Law, Chapter 12, to execute requests from other countries for obtaining evidence in Cyprus in criminal matters. Additionally, Cyprus is an active participant in the Council of Europe's Multidisciplinary Group on Corruption. As such, it has already signed and ratified (on January 27, 1999 and January 17, 2001 respectively) the Criminal Law Convention on Corruption and has joined the "Group of States Against Corruption-GRECO." Furthermore, it diligently attends GRECO meetings.

Additionally, Cyprus's democratic regime, relatively transparent procedures and open, lively press act as a further deterrent against corruption in the civil service. The Embassy is not aware of any U.S. firms identifying corruption as a significant obstacle to foreign direct investment in Cyprus; however, in some cases, U.S. companies competing on government tenders have expressed concerns about lack of transparency and the appearance of bias in decisions made by the technical committees responsible for preparing specifications and reviewing tender submissions.

#### Area Administered by Turkish Cypriots:

Although the Embassy is unaware of any recent complaints from U.S. businesses involving corrupt practices in the north, anecdotal evidence suggests that corruption and patronage continue to be a factor in the economy, despite recent "government" efforts to introduce standards of transparency in licensing and tendering.

#### Bilateral Investment Agreements

##### Government-Controlled Area:

The Government of Cyprus has 15 bilateral agreements for the encouragement and reciprocal protection of investments with the following countries: Armenia, Belgium, Bulgaria, Belarus, China, Egypt, Greece, Hungary, India, Israel, Lebanon, Poland, Romania, and the Seychelles. Another 40 bilateral investment agreements are currently under negotiation. Cyprus does not have a bilateral investment protection agreement with the United States; however, the Cypriot Ministry of Foreign Affairs and the U.S. State Department have exchanged letters on the reciprocal protection of investments.

Cyprus has entered into bilateral double tax treaties with a total of 40 countries. The main purpose of these treaties is the avoidance of double taxation of income earned in any of these countries. Under these agreements, a credit is usually provided for tax levied by the country in which the taxpayer resides for taxes imposed in the other treaty country. The effect of these arrangements is normally that the taxpayer pays no more than the higher of the two rates. Cyprus has such agreements with Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, the Czech Republic, Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Kyrgyzstan, Malta, Mauritius, Moldova, Norway, Poland, Romania, Russia, Singapore, Slovakia, Slovenia, South Africa, Sweden, Syria, Tajikistan, Thailand, Ukraine, United Kingdom, the United States, and Yugoslavia. Treaties with Algeria, Estonia,

and Kazakhstan are at various stages of negotiations.

The Republic of Cyprus has Trade Centers (under the Ministry of Commerce, Industry and Tourism) in eleven locations outside Cyprus, including one in New York City handling trade with the United States of America, Canada, and Latin America. The full list of these offices can be downloaded from:

<http://www.mcit.gov.cy>

Contact details for the New York Trade Centre follow:

Mr. Aristos Constantinou  
Commercial Counsellor  
Cyprus Trade Centre in New York  
13 East 40th Street  
New York, NY 10016  
Tel: 212-213-9100  
Fax: 212-213-2918  
E-mail: [ctcny@cyprustradeny.org](mailto:ctcny@cyprustradeny.org)  
<http://www.cyprustradeny.org>

#### OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) is not active in Cyprus, but OPIC finance and insurance programs are open and may be useful when bidding on BOT contracts in the government-controlled area. The Government of Cyprus has started a campaign to attract U.S. corporate investors. Cyprus is a member of the Multilateral Investment Guarantee Agency (MIGA).

#### Labor

##### Government-Controlled Area:

The labor force in the government-controlled area of Cyprus is estimated at 372,800 persons. Of these, 6.5 percent work in agriculture, 0.6 percent in fishing and mining, 10.9 percent in manufacturing and utilities, 9.9 percent in construction, and the remaining 72.1 percent in services (including 28.4 percent in trade and tourism).

Since 1977, the rate of unemployment in Cyprus has not exceeded 4.0 percent of the economically active population, significantly lower than the EU average rate of unemployment. At the end of June 2006, unemployment stood at 3.4 percent, compared with 4.1 percent a year earlier, which makes it the third lowest in the EU.

Cyprus has a high per capita rate of college graduates, including many U.S. graduates, and offers an abundant supply of white-collar workers. English is widely spoken, a legacy of Cyprus's experience as a British colony (until 1960).

In response to labor shortages in recent years, more women have joined the labor force (women are now about 44.0 percent of the labor force, compared with 33.4 percent in 1980) and a growing number of Cypriots are repatriating from abroad. In 2007, Cyprus hosted about 63,000 legally-registered foreign workers, including about 15,000 live-in domestic servants. There are also many illegal workers -- more than 30,000 according to one unofficial estimate -- with the rate of illegal immigration increasing.

The legislated minimum wage (effective April 2007) for sales assistants, clerks, paramedical, and child care staff is currently around USD 898 per month, rising to USD 955 after six months' employment. Neither amount is sufficient to provide a decent standard of living for a worker and family. All other occupations, including unskilled workers, are covered under collective

bargaining agreements between trade unions and employers within the same economic sector, and the wages set in these agreements are significantly higher than the legislated minimum wage. Existing legislation requires that foreign workers receive at least the minimum wage. The starting minimum wage for foreign domestic servants, however, is USD 330 per month plus USD 88 for lodging if the worker is not a live-in.

Currently, about 71.0 percent of the labor force is unionized (compared to 80.0 percent in 1980), which gives the unions a strong say in collective agreements. Head-on confrontations between management and unions do occur, although long-term work stoppages are rare. A recent study by Harvard University covering 60 countries found that union power in Cyprus was perceived to be "the strongest in the world," while labor relations were perceived to be "relatively peaceful." International business companies are not required to hire union labor. The continued existence and method of calculating the current economy-wide, twice per year, Cost of Living Allowance (COLA) for employees is a contentious issue between unions and employers. Nonetheless, this practice is not expected to change in the near-term.

#### Area Administered by Turkish Cypriots:

The labor force in the area administered by Turkish Cypriots is estimated at 95,025. The breakdown of employment by sector is as follows: 15.1 percent in agriculture, 9.5 percent in manufacturing and utilities, 17.5 percent in construction, and 57.9 percent in services (including 11.4 percent in trade and tourism). The minimum wage effective January 1, 2006 was 780 new Turkish Lira (YTL) per month (around 577 USD). The rate of unemployment is estimated at around 9 percent.

#### Foreign-Trade Zones/Free Ports

##### Government-Controlled Area:

Cyprus has three Free Zones (FZs). The first two, located in the main seaports of Limassol and Larnaca, are used only for transit trade, while the third, located near the international airport in Larnaca, can also be used for repacking and reprocessing. These areas are treated as being outside normal EU customs territory. Consequently, non-EU goods placed in FZs are not subject to any import duties, VAT or excise tax. FZs are governed under the provisions of relevant EU and Cypriot legislation. The Department of Customs has jurisdiction over all three areas and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods. Additionally, the Ministry of Commerce, Industry and Tourism has management oversight over the Larnaca FZ.

Companies given permission to locate in the Larnaca FZ take advantage of the fact that the FZ operates outside the normal jurisdiction of Cyprus Customs. This allows the company to import raw materials or goods for transshipment without paying the normal import duty and VAT. The only limitation is that the goods must be sold or re-exported strictly outside the EU. If the company wants to do business with the local market, it must obtain permission from Customs and pay the appropriate duties.

The procedure for applying is straightforward. Interested companies apply to the Ministry of Commerce, Industry, and Tourism (contact info given below), laying out their investment plans. The Ministry reviews the application and makes a recommendation. An inter-agency Council, with participation from the Central Bank of Cyprus and the Ministry of Finance, reviews the application and the Ministry of Commerce, Industry and Tourism issues approval. Contact information follows:

Mr. George Michael  
Commerce and Industry Officer A'  
Ministry of Commerce,  
Industry and Tourism  
1421 Nicosia  
Tel. 357-22-867235  
Fax. 357-22-375120  
E-mail: mcindustry2@cytanet.com.cy  
Website: <http://www.mcit.gov.cy>

## Foreign Direct Investment Statistics

### Government-Controlled Area:

In the run-up to EU accession (May 1, 2004), Cyprus dismantled most investment restrictions, attracting increased flows of Foreign Direct Investment (FDI), particularly from the EU. According to the latest United Nations Conference on Trade and Development (UNCTAD) "World Investment Report 2007," Cyprus ranks among the world leaders (22nd in 2006) in terms of attracting foreign direct investment on a per capita basis.

In 2006, the inflow of FDI reached USD 1.50 billion, compared with USD 1.18 billion in 2005. The geographic origin of new investment in 2006 was the EU 27.6 percent; non-EU countries in Europe 23.2 percent; and Asia 35.1 percent. In terms of sectoral allocation, incoming FDI in 2006 went to the following sectors: mining and quarrying 1.7 percent; construction 3.9 percent; trade and repairs 17.1 percent; financial intermediation 14.6 percent; real estate and business activities 35.0 percent; and other services 27.7 percent.

The flow of U.S. investment in Cyprus reached USD 51.9 million in 2006 or 3.4 percent of Cyprus' total inward FDI. The stock of U.S. investment in the island was USD 298.9 million at the end of 2006. U.S. investment in 2006 was focused in real estate and business activities (USD 27.9 million) as well as mining and quarrying (USD 22.2 million). Projects involving U.S. investment in recent years have included a well-known U.S. coffee retailing franchise, a university, an information technology firm, an equestrian center, a hair products manufacturing unit, a firm trading in health and natural foodstuffs, and a financial services company. U.S. investors may benefit from Cyprus's abolition of EU-origin investment restrictions, provided they operate through EU subsidiaries.

Additional information, with graphs, on foreign direct investment statistics can be obtained from:

<http://www.investincyprus.gov.cy/mcit/iic.nsf/>

[dmlstatistics\\_en/dmlstatistics\\_en?OpenDocument](#)

### Area Administered by Turkish Cypriots:

No detailed statistics on investment in the area administered by Turkish Cypriots are available. However, it is clear that most foreign direct investment in north Cyprus since 1974 has come from Turkey Q both from the government and the private sectors. The sector, which has attracted most investment, has been tourism and real estate. Currently, there are plans for several large hotels in coastal areas in the north and one large marina.

### Web Resources

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American Embassy in Nicosia:

<http://www.americanembassy.org.cy>

Commercial Section in Nicosia:  
<http://www.buyusa.gov/cyprus/en>

Government-Controlled Area  
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Ministry of Foreign Affairs:  
[http://www.mfa.gov.cy/mfa/properties/occupied\\_area\\_properties.nsf/index\\_en/index\\_en?OpenDocument](http://www.mfa.gov.cy/mfa/properties/occupied_area_properties.nsf/index_en/index_en?OpenDocument)  
Ministry of Commerce, Industry, and Tourism:  
<http://www.investincyprus.gov.cy>  
Foreign Investors Service Centre (FISC):  
<http://www.mcit.gov.cy>  
Ministry of Interior:  
<http://www.moi.gov.cy/da>  
Ministry of Finance:  
<http://www.mof.gov.cy/mof/mof.nsf/Main?OpenFrameset>  
Central Bank of Cyprus:  
[http://www.centralbank.gov.cy/nqcontent.cfm?\\_id=37](http://www.centralbank.gov.cy/nqcontent.cfm?_id=37)  
Department of Merchant Shipping:  
<http://www.shipping.gov.cy>  
Cyprus Bar Association:  
[http://www.cyprusbarassociation.org/news\\_en.php](http://www.cyprusbarassociation.org/news_en.php)

Area Administered by Turkish Cypriots  
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"TRNC State Planning Organization:"  
<http://www.devplan.org/>  
Turkish Cypriot Chamber of Commerce:  
<http://www.ktto.net/english/about.html>

END TEXT

ZIMMERMAN